

DEPARTMENT OF TAXATION

2004 Fiscal Impact Statement

1. **Patron** John J. Welch, III

3. **Committee** House Finance

4. **Title** Local Meals and Transient Occupancy Tax:
Provides Limits on Cities and Towns
Imposing the Tax

2. **Bill Number** HB 412

House of Origin:

X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would 1) prohibit any city or town from imposing a new, or increasing an existing, local meals tax unless such tax or tax rate increase is first approved by referendum vote within the city or town, and 2) prohibits any city or town from imposing a transient occupancy tax greater than two percent of the cost of the accommodation. The bill creates an exception by allowing a city or town to impose a transient occupancy tax not greater than five percent provided all tax revenues over two percent are used to promote tourism within the locality. Any city or town with a higher rate as of January 1, 2004 would be grandfathered. The bill also defines specifically what will be construed as being used for "tourism".

The effective date of this bill is January 1, 2004.

6. **Fiscal Impact Estimates are:** Not available. (See Line 8.)

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

There will be no state revenue impact associated with this bill. The local revenue impact is unknown because it is unknown how many cities or towns will either approve a meals tax, or increase a meals tax, through referendum, or impose a transient occupancy tax, or the rate at which it will be imposed. There will be no revenue loss to localities, as tax rates already in place under current law will remain.

9. **Specific agency or political subdivisions affected:**

All cities and towns in the Commonwealth

10. **Technical amendment necessary:** None.

11. Other comments:

Currently, any city or town having general taxing powers as established by charter may impose excise taxes on meals and transient room rental. Under this bill, any city or town would be prohibited from imposing a new, or increasing an existing, meal tax without referendum approval within the city or town. This bill would also prohibit any city or town from imposing a transient occupancy tax greater than 2% of the cost of the accommodations. This bill creates an exception with regard to the transient occupancy tax that would allow cities and town the authority to impose the tax at a rate not to exceed 5%, provided all taxes over 2% are used to promote tourism within the city or town. In addition, this bill defines specifically what will be construed as being used for "tourism".

Local Meals Tax

Currently, all cities in the Commonwealth impose a local meals tax. The lowest city rate imposed is 2% by the City of Fairfax, and the highest rate is 6.5% imposed by the cities of Franklin, Hampton, Newport News, Norfolk and Portsmouth. In 2003, two cities, Harrisonburg and Martinsville, raised their meals tax rate, and effective January 1, 2004, the city of Richmond raised their rate.

Similar Legislation

Senate Bill 213 adds Giles County to the list of counties authorized to impose a local food and beverage tax by adoption of local ordinance, rather than a referendum vote.

Transient Occupancy Tax

Currently, 36 of the 39 cities in the Commonwealth impose a transient occupancy tax with a median tax rate of 5 percent, the lowest being 2% and the highest being 8% (Colonial Heights, Norfolk, Richmond and Virginia Beach). In 2003, 6 cities (Colonial Heights, Danville, Franklin, Harrisonburg, Manassas, and Martinsville) raised their transient occupancy tax.

Similar Legislation

House Bill 739 authorizes Floyd County to impose a transient occupancy tax not to exceed 5%, with all revenue over 2% to be used to promote tourism in the county.

House Bill 741 authorizes Chesterfield, Hanover, and Henrico counties to impose an additional transient occupancy tax not to exceed one percent, revenues to be used to promote tourism in the City of Richmond.

House Bill 1001 authorizes Fairfax County to impose an additional two percent transient occupancy tax, revenues to be used to promote tourism and economical development.

Senate Bill 367 authorizes an additional one percent transient occupancy tax for any two or more contiguous counties or cities, revenues to be used to attract convention business to the region.

Senate Bill 375 authorizes Nelson County to impose a transient occupancy tax not to exceed five percent.

Senate Bill 512 authorizes Fairfax County to impose an additional two percent transient occupancy tax, revenues to be used to promote tourism and economical development.

Senate Bill 517 authorizes Rockbridge County and the cities of Lexington and Buena Vista to impose an additional 2% transient occupancy tax, the revenues to be used for paying down debt to the Rockbridge Industrial Development Authority.

cc: Secretary of Finance